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**LATROBE MAGNESIUM LIMITED
AND ITS CONTROLLED ENTITIES**

ABN 52 009 173 611

**HALF YEAR
FINANCIAL REPORT**

31 DECEMBER 2021

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COMPANY DIRECTORY

Directors

Jock Murray, Chairman
David Paterson
Philip Bruce
John Lee

Registered Office and Principal Place of Business

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Sydney NSW 2000
Telephone: (02) 9279 2033

Auditors

Nexia Sydney Audit Pty Ltd
Level 16
1 Market Street
Sydney NSW 2000

Share Registry

Computershare Investor Services Pty Limited
Level 3
60 Carrington Street
Sydney NSW 2000
Telephone: 1 300 850 505

www.latrobemagnesium.com

Chief Executive Officer

David Paterson

Secretary

John Lee

Bankers

National Australia Bank Limited
Mezzanine Level
255 George Street
Sydney NSW 2000

Solicitors

Minter Ellison
Level 19
88 Philip Street
Sydney NSW 2000

Stock Exchange

Australian Securities Exchange
20 Bridge Street
Sydney NSW 2000

ASX CODE: LMG

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DIRECTORS' REPORT

The Directors submit the financial report of Latrobe Magnesium Limited ("the Company" or "LMG") and of the Group being the Company and its subsidiaries for the half-year ended 31 December 2021.

DIRECTORS

The names of Directors who held office during or since the end of the half-year are:

J S Murray	Chairman
D O Paterson	CEO & Executive Director
K A Torpey	Non Executive Director (deceased on 8 February 2022)
P F Bruce	Non Executive Director
J R Lee	Non Executive Director

REVIEW OF OPERATIONS

The consolidated loss of the Group for the half-year after providing for income tax was \$1,250,473 (2020: \$1,503,931). The loss was mainly due to the costs incurred in expanding the owner's team management, and ongoing test work on Yallourn fly-ash.

During the half year ended 31 December 2021, the Company has made significant progress with:

- Officially awarded EPCM to Mincore; further detailed engineering of the demonstration plant commenced.
- Completed value engineering summary and trade-off study reports which resulted in reduced capital costs.
- Completed site surveying and underground service location.
- Completed architectural drawings for the administration building refurbishment.
- Contracts tendered and works completed for fencing & gate repair, site clean-up and electrical services restoration.
- Commencing pre-qualification of potential contractors for construction works and formal issue of tender thereafter.
- Continuing test work in conjunction with CSIRO for the detailed design and modelling of the reduction furnace area and its automation.
- Finalising the process flowsheet and updating the mass and energy balance to incorporate new test work and vendor data.
- Finalised sub-lease agreement with RLT Mining & Earthworks Pty Ltd to utilise 20,000 m² of Lot 6 of Hazelwood N site to establish a new base for its transport operation.
- Exercised option December to purchase 320 Tramway Road site at the agreed price of \$4.5 million, \$2.25 million paid by cash, \$2.25 million by LMG shares at 10 cents per share in February 2022.
- Completed two capital raisings by placements in October and November 2021 raising a total of \$14.5 million to fund the magnesium project.
- Signed a binding term sheet for \$23 million in project funding plus capitalized interest, with \$20 million to be drawn in 2022 and a \$3 million standby line available in 2023, as a contingency to fund any construction cost over-run.

DIRECTORS' REPORT

LATROBE MAGNESIUM PROJECT

1. Ash Supply Agreement

In October 2019, Latrobe Magnesium Limited signed an agreement with EnergyAustralia Yallourn Pty Ltd (Yallourn) to secure ash supply to LMG's initial 3,000 tonnes per annum (tpa) magnesium plant for the next ten years. The agreement requires certain approvals and conditions to be satisfied. It also deals with the principal issues in relation to Yallourn increasing its supply of ash to LMG's 40,000 tpa planned expanded magnesium plant.

On 10 March 2021, EnergyAustralia announced that they would be closing its Yallourn Power Station in mid 2028. LMG believes there is sufficient fly ash that can be mined from their current ash repository and the fly ash produced over the next seven years to provide sufficient feedstock to supply a 20,000 tpa magnesium plant for a period of 25 years. New agreements will need to be entered into between LMG and EnergyAustralia before the expansion of LMG's plant can take place.

LMG has announced that, once it has successfully operated its demonstration plant, it will be expanding the plant to a 10,000tpa capacity. Further Geotech work is required to be undertaken to determine the Yallourn ash supply that can be used. This work will be completed in 2022. Then the final size of the Latrobe Plant will be determined.

During the next 20 years LMG is hopeful that the Hazelwood HAP4 ash dam may become available to be processed through their expanded plant. Should this not become available LMG has identified an alternative supply of feedstock that could be processed by its expanded plant.

2. Demonstration Plant

During the last 6 months, LMG decided to reduce the size of its 3,000 tpa magnesium plant to 1,000 tpa. It was agreed that the size of the plant will reduce the capital expenditure and also the time to construct. This size of plant will still be able to demonstrate that LMG's acid hydromet process is workable.

The initial plant is estimated to still employ up to 48 on-going direct employees and 10 contractors and 50 to 75 construction jobs.

3. Community Briefings

Due to COVID-19 restrictions on public gatherings, LMG could not hold a second public meeting during this year. LMG placed two advertisements in the Latrobe Valley Express notifying the public that project information in relation to the EPA reports was available.

LMG has also updated its website so that it is more interactive with all stakeholders. It also has a LinkedIn and Twitter sites for the provision of information. In September 2021, LMG organised an investor webinar to update all stakeholders on the progress of the Latrobe magnesium project.

LMG has committed to hold two further Community briefings through the development of the project and report on the emissions and other matters. LMG believes in having a social licence with the Community in which it operates.

4. Latrobe Council Planning Permit

On 5 June 2020, LMG's application to the Latrobe City Council for planning approval to use and develop the site for its initial 3,000 tpa magnesium plant at 320 Tramway Road Hazelwood North was approved and a certificate issued.

LMG will need to get an additional approval for the construction of a 10,000 tpa plant. LMG remains committed to progressing this project to safely re-process mining waste, generating jobs and developing

DIRECTORS' REPORT

a new clean magnesium industry in the Latrobe Valley. LMG is currently investigating the use of renewables for its 10,000tpa plant from a nearby solar farm project.

5. EPA Planning Approval

On 16 September 2020, LMG's application to the Environmental Protection Authority (EPA) for its research, development and demonstration application for its initial 3,000 tpa magnesium plant at 320 Tramway Road Hazelwood North was approved and a certificate issued. The approval allows LMG to operate the plant for a period of 12 months post the commissioning stage.

The EPA's approval comes with mainly standard conditions which need to be fulfilled before construction and/or commissioning of the plant. An additional approval will be required for the 10,000 tpa plant.

6. The Magnesium Metal Production Facility

Most of the site preparation work for the construction of the "demonstration-scale" magnesium metal production facility using ash from the Yallourn W power station as raw material, has been completed. Construction will commence on site in the first quarter 2022.

The chosen site, at 320 Tramway Road, Hazelwood North, is part of an industrial zone, but still relatively close to the Yallourn Power Station, in order to minimise transport of the ash. The plan is to re-purpose the existing buildings, bringing in new equipment and facilities. The bulk of the production facility is to be housed within the existing building located at the southern end of the site. Truck access will be from Second Avenue (not the main road) and loading/unloading will be on the west side of the existing building.

The intention is that the facility will operate for about 12 months, in order to demonstrate the production process. Operations beyond that time are possible but LMG has made no decision and any plans to do so would also need further Council and EPA approval.

The extraction of magnesium from brown coal fly ash is a new industrial process. It will involve dissolving magnesium from the ash and its recovery as solid magnesium oxide. This can then be reduced to magnesium metal using the conventional high-temperature process. Because the magnesium is removed to a high degree, the material remaining should be able to be utilised as a cement substitute in the construction industry.

The process is anticipated to have 62 percent reduction in carbon emissions compared to the usual normal magnesium Chinese industry performance. This is due to the lower concentration of carbonates in the fly ash, compared with the normal dolomite ore feedstock. Also, the key chemical consumable, ferrosilicon, is manufactured using hydro-electricity.

7. Purchase of 320 Tramway Road, Hazelwood North

On 16 December 2021, the Company exercised its option to purchase the site, where its magnesium production facility is situated, from the landlord for its fixed price of \$4.5 million. This purchase price was fixed some 9 years ago. The landlord accepted the purchase consideration paid as \$2.25 million in cash and \$2.25 million in LMG shares at 10 cents being 22.5 million LMG shares.

The settlement of the purchase was completed on 8 February 2022. The total purchase price of the property and its cranes was \$5,000,000 paid as follows:

	\$
Cash payment	2,250,000
Issue of 22.5 million LMG shares @ \$0.10	2,250,000
Issue of 5 million LMG shares @ \$0.095	500,000

Total Purchase Price	5,000,000
	=====

DIRECTORS' REPORT

Land and Property	2,119,000
Equipment – Cranes	2,881,000

Total Purchase Price	5,000,000
	=====

RnD Equipment Pty Ltd were nominated as the purchaser of the 10 cranes from the Tramway Road's owners. These cranes were subsequently purchased by the Company at a commercially higher value. These cranes will be used to automate the loading and unloading of the smelters and are eligible for the Company's Research and Development rebate.

320 Tramway Road property contains 14,000m² of buildings in the form of an administration building and a number of large industrial buildings which are 12 metres high. These buildings are ideal to house LMG's initial plant.

The site is close to rail, freeway, gas and water pipelines. In addition, the site is near to a new solar power development which has been permitted by the Latrobe City Council and the Victorian State Government. Given LMG can connect to this solar farm development, its magnesium and other products will produce zero or very little CO² emissions.

The purchase of the site allows the company to plan its future expansions, obtain appropriate business insurance, save rent through the construction phase and benefit from its own site improvements.

8. Warrant Issue

Under the October 2018 funding agreement with RnD Funding Pty Ltd, LMG issued 12,495,000 unlisted warrants. The warrants have an exercise price of \$0.02 and are exercisable for a period up to 3 years post the drawdown dates. As at 31 December 2021, 8,330,000 warrants were exercised at \$0.02 by RnD Funding Pty Ltd. The remaining 4,165,000 warrants are exercisable at \$0.02 on or before 29 March 2022.

Under the October 2019 funding agreement with RnD Funding Pty Ltd, LMG has issued 35,889,199 unlisted warrants. The warrants have an exercise price of \$0.03 and are exercisable for a period up to 3 years post the drawdown date. In November 2021, 12,666,000 warrants were exercised at \$0.03 by RnD Funding Pty Ltd. The remaining 23,325,000 warrants are exercisable at \$0.03 prior to 15 October 2022.

9. Capital Raisings

On 19 October 2021, the Company issued 120,000,000 fully paid ordinary shares at \$0.025 per share to sophisticated and professional investors pursuant to a private placement, raising gross proceeds of \$3 million. In addition, the company issued 60,000,000 options, on a one for two free basis for each ordinary share issued under the placement. The options were issued at an exercise price of 4 cents for a term of 2 years payable on or before 26 October 2023.

On 18 November 2021, the Company issued 115,000,000 fully paid ordinary shares at \$0.10 per share to sophisticated and professional investors pursuant to a private placement, raising gross proceeds of \$11.5 million. In addition, the company issued 28,750,000 options, on a one for four free basis for each ordinary share issued under the placement. The options were issued at an exercise price of 4 cents for a term of 23 months payable on or before 26 October 2023.

The Company issued 4.5 million options at an exercise price of 4 cents for a term of 23 months payable on or before 26 October 2023 for the payment of marketing costs associated with the November capital raising. An additional 25.5 million options were issued in January 2022 on the same terms and for the same reason.

The total proceeds of \$14.5 million provides funding to continue the development of the Company's initial plant.

DIRECTORS' REPORT

10. Project Funding

On 13 December 2021, LMG signed a binding term sheet with RnD Funding Pty Ltd ("RnD Funding") for the provision of \$23 million of loan funding. RnD Funding's commitment is backed by a letter of comfort from an Australian investment fund, with credit related funds under management of circa \$300 million. The loan facility is available to be drawn in three tranches:

- (i) \$10,000,000 in full, on before 21 March 2022;
- (ii) \$10,000,000 in full, on or before 30 June 2022; and
- (iii) standby line of \$3,000,000 available to be drawn between 1 January 2023 and 30 June 2023.

The establishment fee for the facility is 1% and it will be paid in LMG shares.

The term of the loan is five years from the date of the first drawdown and the interest rate chargeable is 12% per annum to 31 October 2023. Thereafter, the interest rate may be reset to a capped rate of 16% to 31 December 2024 and a capped rate of 24% from 1 January 2025 for the remaining term of the facility.

Loan repayments are budgeted to be sourced from a combination of R&D tax refunds (arising under LMG's R&D Tax Incentive entitlements) and LMG's offtake agreements.

It is LMG's intention to refinance this loan by October 2023 upon the successful completion of the demonstration plant.

EVENTS SUBSEQUENT TO REPORTING DATE

The Annual General Meeting was held on 20 January 2022. It was conducted as a virtual meeting due to the effect of COVID-19. All nine resolutions were carried out by way of a poll.

As a result of the ratification of previous shares and options issue by placements on 26 October 2021 and 18 November 2021, the Company has the capacity to issue securities as follows:

Under Listing Rule 7.1	235,168 949 security issue capacity
Under Listing Rule 7.1A	156,779,299 security issue capacity

The Company is therefore able to issue:

- 22,500,000 shares to complete the purchase of 230 Tramway Road property.
- 25,500,000 options to pay for the funding and marketing costs for the next twelve months.
- 8,319,809 shares to RnD Equipment Pty Ltd to complete the purchase of the cranes.
- 80,000,000 warrants to RND Funding Pty Ltd and the shares required to pay for the 1% loan establishment fee under the \$23 million loan agreement.

At the date of completion of the financial report, the Group is continuing to monitor and respond to the effects of COVID-19. The Group has implemented appropriate COVID-19 policies designed to minimise the risk of transmission of COVID-19 among its workforce and local communities while minimising the risk of disruption to its ongoing activities.

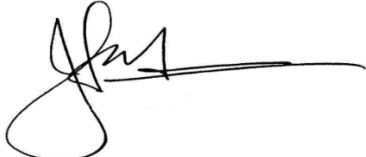
There has not otherwise arisen in the interval between the end of the financial half-year and the date of this report any other item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the consolidated entity to significantly affect the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in future financial years.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration under section 307C of the *Corporations Act 2001* is set out on page 9 for the half-year ended 31 December 2021 and forms part of this report.

DIRECTORS' REPORT

This report is signed in accordance with a resolution of the Board of Directors.



J S Murray
Chairman



D O Paterson
Chief Executive Officer

Sydney

15 March 2022

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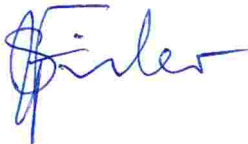
AUDITOR'S INDEPENDENCE DECLARATION TO THE DIRECTORS OF LATROBE MAGNESIUM LIMITED

As lead audit director for the review of Latrobe Magnesium Limited and its controlled entities for the financial half-year ended 31 December 2021, I declare to the best of my knowledge and belief, there have been:

- (a) No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (b) No contraventions of any applicable code of professional conduct in relation to the review.



Nexia Sydney Audit Pty Ltd



Stephen Fisher

Director

Sydney

Dated: 15 March 2022

Nexia Sydney Audit Pty Ltd

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STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the half year ended 31 December 2021

	Consolidated Entity		
	Note	31 December 2021	31 December 2020
		\$	\$
Revenue			
Finance Income		5,573	200
Other Income			
- Government Grants		-	18,500
- Research and development tax rebate		577,758	305,695
	2	----- 583,331	----- 324,395
Research and evaluation expenses		(338,454)	(311,670)
Finance Costs		(31,976)	(859,115)
Administration expenses		(1,463,374)	(657,541)
		-----	-----
Loss before income tax expense		(1,250,473)	(1,503,931)
Income tax expense		-	-
		-----	-----
Loss attributable to members of the parent entity		(1,250,473)	(1,503,931)
		=====	=====
Other Comprehensive Income			
Other comprehensive income		-	-
		-----	-----
Total comprehensive income		(1,250,473)	(1,503,931)
		=====	=====
		No.	No.
Average weighted shares on issue		1,476,280,313	1,296,503,069
Losses per share (cents per share)		(0.09)	(0.12)
Diluted losses per share (cents per share)		(0.09)	(0.12)

The financial statements should be read in conjunction with the accompanying notes.

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STATEMENT OF FINANCIAL POSITION
For the half year ended 31 December 2021

	Note	Consolidated Entity	
		31 December 2021	30 June 2021
		\$	\$
Current Assets			
Cash and cash equivalents		9,735,124	954,249
Trade and other receivables	3	2,183,634	2,255,701
Total Current Assets		<u>11,918,758</u>	<u>3,209,950</u>
Non-Current Assets			
Trade and other receivables		174,010	158,037
Plant and equipment		17,456	22,054
Initial Plant	4	3,270,730	1,322,570
Right-of-use asset	5	108,683	689,239
Intangible assets	6	6,916,460	6,905,851
Land and property asset	7	5,000,000	-
Total Non-Current Assets		<u>15,487,339</u>	<u>9,097,751</u>
Total Assets		<u>27,406,097</u>	<u>12,307,701</u>
Current Liabilities			
Trade and other payables		1,568,407	1,817,747
Option payable	10	2,767,289	-
Lease Liability	5	21,095	92,276
Property payment by shares	7	3,025,000	-
Total Current Liabilities		<u>7,381,791</u>	<u>1,910,023</u>
Non Current Liabilities			
Lease Liability	5	86,484	606,127
Deferred Income	4	8,104,695	8,104,695
Total Non Current Liabilities		<u>8,191,179</u>	<u>8,710,822</u>
Total Liabilities		<u>15,572,970</u>	<u>10,620,845</u>
Net Assets		<u>11,833,127</u>	<u>1,686,856</u>
Equity			
Issued capital	8	44,852,034	33,943,635
Warrant Reserves	9	231,589	382,240
Option Reserves	10	488,345	-
Accumulated losses		(33,738,841)	(32,639,019)
Total Equity		<u>11,833,127</u>	<u>1,686,856</u>

The financial statements should be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY
For the half year ended 31 December 2021

	Note	Issued Capital \$	Reserves \$	Accumulated Losses \$	Total \$
Balance at 1 July 2020		33,562,283	382,240	(30,286,060)	3,658,463
Total comprehensive income		-	-	(1,503,931)	(1,503,931)
Balance at 31 December 2020	8	<u>33,562,283</u>	<u>382,240</u>	<u>(31,789,991)</u>	<u>2,154,532</u>
Balance at 1 July 2021		33,943,635	382,240	(32,639,019)	1,686,856
Exercise of warrants	9	-	(150,651)	150,651	-
Share issue costs	10	(3,255,634)	-	-	(3,255,634)
Option reserves	8, 9	-	488,345	-	488,345
Total comprehensive income				(1,250,473)	(1,250,473)
Shares issued during the period		14,164,033	-	-	14,164,033
Balance at 31 December 2021	8	<u>44,852,034</u>	<u>719,934</u>	<u>(33,738,841)</u>	<u>11,833,127</u>

The financial statements should be read in conjunction with the accompanying notes.

STATEMENT OF CASH FLOWS
For the half-year ended 31 December 2021

	Consolidated Entity	
	31 December 2021	31 December 2020
	\$	\$
Cash Flows from Operating Activities		
Receipts from operations	814,413	18,500
Payments to suppliers and employees	(2,175,156)	(352,968)
Interest received	5,573	200
	-----	-----
Net Cash used in Operating Activities	(1,355,170)	(334,268)
	-----	-----
Cash Flows from Investing Activities		
Payment to acquire plant	(1,545,454)	-
Payment to acquire land and property	(2,250,000)	-
Payment of rent and deposit bonds	(15,973)	-
Payment for international patent costs	(10,609)	(8,316)
	-----	-----
Net Cash used in Investing Activities	(3,822,036)	(8,316)
	-----	-----
Cash Flows from Financing Activities		
Loan funding	-	310,000
Proceeds from issue of shares	15,002,057	-
Transaction costs on issue of shares	(870,000)	-
Repayment of lease liabilities	(173,976)	-
	-----	-----
Net Cash provided by Financing Activities	13,958,081	310,000
	-----	-----
Net Increase/(decrease) in Cash and Cash Equivalents	8,780,875	(32,584)
Cash and Cash Equivalents at Beginning of Period	954,249	38,529
	-----	-----
Cash and Cash Equivalents at End of Period	9,735,124	5,945
	=====	=====

The financial statements should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS
For the half-year ended 31 December 2021

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These general purpose financial statements for the interim half-year reporting period ended 31 December 2021 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the *Corporations Act 2001*, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

Basis of preparation

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2021 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

New or amended Accounting Standards and Interpretations adopted

The group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity during the financial half-year ended 31 December 2021 and are not expected to have any significant impact for the full financial year ending 30 June 2022.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Going Concern Basis of Accounting

For the half year ended 31 December 2021 the consolidated entity recorded a net loss of \$1,250,473 (2020: \$1,503,931) and a net cash outflow from operating activities of \$1,355,170 (2020: \$334,268).

Notwithstanding the loss for the half year, negative cash flow from operations and historical financial performance, the financial report has been prepared on a going concern basis. This assessment is based on cash on hand and the financial facilities available to the consolidated entity at balance date.

The proceeds from the capital raisings in October and November 2021 were in the total sum of \$14.5 million to fund the development of the project. The Company has also signed a binding term sheet for \$23 million in project funding plus capitalized interest, with \$20 million to be drawn in 2022 and a \$3 million standby line available in 2023, as a contingency to fund any construction cost over-run. The project funding means LMG is now fully funded to complete the construction of its \$39 million 1,000 tpa demonstration plant.

The Company has prepared cash flow forecasts for the above described base case scenario for the period up to March 2023. The Company is satisfied that it will be able to continue to operate as a going concern on this basis.

NOTES TO THE FINANCIAL STATEMENTS
For the half-year ended 31 December 2021

NOTE 2 LOSS FROM ORDINARY ACTIVITIES

The following revenue and expense items are relevant in explaining the financial performance of the interim period.

	Note	Consolidated Entity	
		31 December 2021	31 December 2020
		\$	\$
(i) <u>Revenue</u>			
Finance Income		5,573	200
Other Income - Government Grants		-	18,500
- Research & development tax rebate		577,758	305,695
		583,331	324,395
		=====	=====
(ii) <u>Expenses</u>			
- Depreciation		171,396	39,675
- Research and Evaluation Expenses		338,454	311,670
- Directors Fees		218,514	218,514

NOTE 3 CURRENT OTHER RECEIVABLES

	Note	Consolidated Entity	
		31 December 2021	30 June 2021
		\$	\$
GST Refund		628,341	40,704
R&D Tax Rebate		577,758	814,413
Rent Bond		46,123	46,123
Refundable Prepayment		931,412	1,354,461
		2,183,634	2,255,701
		=====	=====

NOTE 4 CAPITAL COMMITMENT

	Consolidated Entity	
	31 December 2021	30 June 2021
	\$	\$
Capitalised costs of the Initial Plant	3,270,730	1,322,570
	=====	=====

On 19 June 2020, the Company committed to Mincore to provide design, engineering, procurement and management services for LMG's Initial Plant. Mincore issued an invoice for these services expected at that time to be performed by them over the next 12 months for an amount of \$18,632,000 from 26 June 2020. At 31 December 2021 the total amount of Mincore contract services not yet provided or prepaid is \$14,451,434.

The research and development tax rebate calculated at the rate of 43.5% payable from these services is \$8,793,842, of which \$8,104,695 is treated as a deferred income liability until such time as the plant is completed and depreciation commences.

Preparation work has been carried out for the construction of the initial 3,000 tpa magnesium plant (now revised to 1,000 tpa). Engineering studies and design work has started, construction contracts have been prepared and awarded. These costs have been capitalised as initial plant asset of \$3,270,730.

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NOTES TO THE FINANCIAL STATEMENTS
For the half-year ended 31 December 2021

As the plant is now expected to be completed by 31 March 2023, the deferred income continues to be classified as a non-current liability. Once the plant is constructed the deferred income will be reclassified as an offset against the non-current plant asset.

NOTE 5: LEASING COMMITMENTS

Right of Use Assets - the Company is committed on the leases summarised as below:

Lease Commitments	George St	Clarence St	Hazelwood N	Traralgon	Total
	2019-21	2021-24	Apr-Dec 21	2021-22	
Right of use of assets					
Value of Lease	154,976	103,263	184,017	24,867	467,122
Accumulated Depreciation	(154,976)	(2,868)	(184,017)	(16,578)	(358,439)
	-	100,395	-	8,289	108,683
Lease Liability	154,976	103,263	184,017	24,867	467,122
Interest Expense	9,791	378	2,766	469	13,403
Lease Payment	(165,501)	(2,959)	(187,500)	(16,986)	(372,946)
	(735)	100,682	(717)	8,349	107,579
Current Liability	(735)	18,339	(717)	4,208	21,095
Non Current Liability	-	82,343	-	4,141	86,484
	(735)	100,682	(717)	8,349	107,579

- Sydney Lease – The lease of George Street office expired on 30 November 2021. The new office is now at 80 Clarence Street, Sydney.
- Sydney Lease - Administration Office
 Term: 1 December 2021 to 30 November 2024.
 Monthly rent \$2,959 as at 1 December 2021.
 Rental increase 4% per annum
 Interest rate Incremental borrowing rate 4.52% at 1 December 2021 to measure lease liability
- Hazelwood North Lease – Magnesium Plant and associated facilities
 The Company has purchased this site at 320 Tramway Road, Hazelwood North by payment of 50% of the purchase price of \$2,250,000 on 16 December 2021. The balance of \$2,750,000 (including \$500,000 for crane equipment) was paid by the issue of LMG shares on 8 February 2022. The leasing commitment is now cancelled.
- Traralgon Lease – Operation Unit
 Term: 21 May 2021 to 30 May 2022
 Monthly rent \$2,123 as at 21 May 2021.
 Rental increase N/A
 Interest rate Incremental borrowing rate 4.52% at 1 May 2021 to measure lease liability

NOTE 6 INTANGIBLE ASSETS

	Consolidated Entity	
	31 December 2021	30 June 2021
	\$	\$
Research and Development in Progress	5,684,000	5,684,000
Ecoengineers Pty Ltd acquisition	1,080,000	1,080,000
	6,764,000	6,764,000
International Patent Costs	152,460	141,851
	6,916,460	6,905,851

NOTES TO THE FINANCIAL STATEMENTS
For the half-year ended 31 December 2021

NOTE 7 LAND AND PROPERTY ASSETS

	Consolidated Entity	
	31 December 2021	30 June 2021
	\$	\$
320 Tramway Road, Hazelwood North, VIC 3840		
Payment in cash	2,250,000	-
Payment by LMG shares to be issued	2,750,000	-
	-----	-----
Total	5,000,000	-
	=====	=====

On 16 December 2021, the Company exercised its option to purchase the site where its magnesium production facility is situated, from the landlord for its fixed price of \$4.5 million in its 3 year lease. The landlord accepted the purchase consideration paid \$2.25 million in cash and \$2.25 million in LMG shares at 10 cents being 22.5 million LMG shares. The final price on settlement is \$5 million inclusive of an additional \$500,000 payable for crane equipment allocated as follows:

Land and Property	2,119,000
Equipment – Cranes	2,881,000

	5,000,000
	=====

The property contains 14,000m² of buildings in the form of an administration building and a number of large industrial buildings which are 12 metres high. These buildings are ideal to house LMG's initial plant and its expanded plants.

NOTE 8 ISSUED CAPITAL

	Consolidated Entity	
	31 December 2021	30 June 2021
	\$	\$
(a) Ordinary Shares Issued and Fully Paid		
Balance at beginning of reporting period	33,943,635	33,562,283
12 Jan 2021 17,334,182 shares issued at \$0.022 to convert outstanding fees owing to Directors and Project Director.	-	381,352
14 Oct 2021 1,155,306 shares issued at \$0.0277 to pay finance costs pursuant a lending agreement in 2019	31,976	-
28 Oct 2021 120,000,001 shares issued at \$0.025 pursuant to a private placement, minus placement fees at 6%	3,000,000 (180,000)	-
19 Nov 2021 115,000,000 shares issued at \$0.10 pursuant to a private placement, minus placement fees at 6%	11,500,000 (690,000)	-
19 Nov 2021 30,000,000 options @ \$0.04 expiring 26 Oct 2023, valued by Black-Scholes method, for capital raising costs	(3,255,634)	-
15 Dec 2021 4,165,000 shares issued at \$0.02 to convert unlisted warrants to shares	83,300	-
23 Dec 2021 969,434 shares issued @ \$0.04 to convert listed options to shares	38,777	-
	-----	-----
	44,852,034	33,943,635
	=====	=====

NOTES TO THE FINANCIAL STATEMENTS
For the half-year ended 31 December 2021

(b) Shares on Issue	No.	No.
Balance at beginning of reporting period	1,313,837,251	1,296,503,069
Share on Issues:		
• 12 January 2021	-	17,334,182
• 14 October 2021	1,155,306	-
• 28 October 2021	120,000,001	-
• 19 November 2021	115,000,000	-
• 19 November 2021	12,666,000	-
• 15 December 2021	4,165,000	-
• 23 December 2021	969,434	-
Balance at end of reporting period	1,567,792,992	1,313,837,251

NOTE 9 UNLISTED WARRANTS

Under the October 2018 funding agreement with RnD Funding Pty Ltd, LMG issued 12,495,000 unlisted warrants. The warrants have an exercise price of \$0.02 and are exercisable for a period up to 3 years post the drawdown dates. As at December 2021, 8,330,000 warrants were exercised at \$0.02 by RnD Funding Pty Ltd. The remaining 4,165,000 warrants are exercisable at \$0.02 prior to 1 March 2022.

Under the October 2019 funding agreement with RnD Funding Pty Ltd, LMG has issued 35,889,199 unlisted warrants. The warrants have an exercise price of \$0.03 and are exercisable for a period up to 3 years post the drawdown date. As at November 2021, 12,666,000 warrants were exercised at \$0.03 by RnD Funding Pty Ltd. The remaining 23,325,000 warrants are exercisable at \$0.03 prior to 15 October 2022.

Unlisted Warrants	
Total warrants outstanding at beginning of the period	48,486,000
Granted in the period	-
Exercised in the period	(20,996,000)
Lapsed in the period	-
Outstanding at the end of the period	27,490,000

NOTE 10 LISTED OPTIONS

On 19 October 2021, the Company issued 120,000,001 fully paid ordinary shares at \$0.025 per share to sophisticated and professional investors pursuant to a private placement. In addition, the company issued 60,000,000 options, on a one for two free basis for each ordinary share issued under the placement. The options were issued at an exercise price of 4 cents expiring on 26 October 2023.

On 19 November 2021, the Company issued 115,000,000 fully paid ordinary shares at \$0.10 per share to sophisticated and professional investors pursuant to a private placement. In addition, the company issued 28,750,000 options, on a one for four free basis for each ordinary share issued under the placement. The options were issued at an exercise price of 4 cents expiring 26 October 2023.

On 19 November 2021, the Company issued 4,500,000 listed options to Peak Assets Management Pty Ltd being part of the capital raising fees in lieu of cash payment. The balance of 25,500,000 listed options were issued in January 2022 after the AGM. The options were issued at an exercise price of 4 cents expiring 26 October 2023. The value of 30,000,000 options is \$3,255,634 calculated by Black-Scholes method.

As at 31 December 2021, five shareholders exercised a total of 969,434 options at \$0.04.

NOTES TO THE FINANCIAL STATEMENTS
For the half-year ended 31 December 2021

Listed Options	
Total options outstanding at beginning of the period	-
Granted in the period	93,250,000
Exercised in the period	(969,434)
Lapsed in the period	-
Outstanding at the end of the period	92,280,566

NOTE 11: RELATED PARTY TRANSACTIONS

Transactions between related parties are on normal commercial terms and conditions, no more favourable than those available to other parties unless otherwise stated.

Transactions with and amounts receivable from and payable to Directors of related parties or their director related entities which:

- a. occur within a normal employee, customer or supplier relationship on terms and conditions no more favourable than those which it is reasonable to expect the entity would have adopted if dealing with the director or director related entities at arms length in the same circumstances;
- b. do not have the potential to adversely affect decisions about the allocations of scarce resources made by users of the financial report, or the discharge of accountability by the directors if disclosed in the financial report only by general description; and
- c. are trivial or domestic in nature;

must be excluded from the detailed disclosures required. Such transactions and amounts receivable or payable shall be disclosed in the financial report by general description.

Other related entities	Consolidated Entity	
	31 December 2021	31 December 2020
	\$	\$
(i) Director's fees were paid to J S Murray Pty Ltd of which J S Murray is a principal.	22,500	22,500
(ii) Director's fees were paid to Famallon Pty Ltd of which K A Torpey is a principal.	13,404	13,404
(iii) Director's fees were paid to Stockholders Relation Pty Ltd of which J R Lee is a principal.	13,404	13,404
(iv) Director's loan provided by D O Paterson, principal loan plus interest	-	175,156
(v) Director's loan provided by Famallon Pty Ltd of which K A Torpey is a principal, principal loan plus interest.	-	165,020

NOTE 12 SEGMENT INFORMATION

AASB 8 requires a management approach under which segment information is presented on the same basis as that used for internal reporting purposes. The Group consists of one business segment being the development of its Latrobe Magnesium Project.

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NOTES TO THE FINANCIAL STATEMENTS
For the half-year ended 31 December 2021

NOTE 13 CONTINGENT LIABILITIES

There are no contingent liabilities and there has been no change in contingent liabilities since the last annual reporting date.

NOTE 14 EVENTS SUBSEQUENT TO BALANCE DATE

The Annual General Meeting was held on 20 January 2022. It was conducted as a virtual meeting due to the effect of COVID-19. All nine resolutions were carried out by way of a poll.

As a result of the ratification of previous shares and options issue by placements on 26 October 2021 and 18 November 2021, the Company has the capacity to issue securities as follows:

Under Listing Rule 7.1	235,168 949 security issue capacity
Under Listing Rule 7.1A	156,779,299 security issue capacity

The Company is therefore able to issue:

- 22,500,000 shares to complete the purchase of 230 Tramway Road property.
- 25,500,000 options to pay for the funding and marketing costs for the next twelve months.
- 8,319,809 shares to RnD Equipment Pty Ltd to complete the purchase of the cranes.
- 80,000,000 warrants to RND Funding Pty Ltd and the shares required to pay for the 1% loan establishment fee under the \$23 million loan agreement.

At the date of completion of the financial report, the Group is continuing to monitor and respond to the effects of COVID-19. The Group has implemented appropriate COVID-19 policies designed to minimise the risk of transmission of COVID-19 among its workforce and local communities while minimising the risk of disruption to its ongoing business activities.

There has not otherwise arisen in the interval between the end of the financial half-year and the date of this report any other item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the consolidated entity to significantly affect the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in future financial years.

NOTE 15 ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group assesses impairment at each reporting date by evaluating conditions specific to the Group that may lead to an impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value calculations performed in recoverable amounts incorporate a number of key estimates.

No impairment has been recognised in respect of the intangible assets for the half year ended 31 December 2021 because:

- the Company's internal valuation indicates that the recoverable amount of the asset is greater than the book value of the assets;
- the magnesium price supports the sale price estimate used in this valuation;
- the Company is utilising a Hydromet Process and the proven Thermal Reduction Process in its process with estimates of its capital and operating costs which are based on its prefeasibility study; and
- the current market capitalisation of the Company as at 11 March 2022 is in the order of \$147 million for this single project company.

DIRECTORS' DECLARATION
For the half-year ended 31 December 2021

In the Directors' opinion:

- a) the financial statements and notes set out on pages 11 to 21 are in accordance with the *Corporations Act 2001*, including:
- (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2021 and of its performance for the half-year ended on that date; and
 - (ii) complying with Australian Accounting Standards AASB 134: Interim Financial Reporting, the Corporation Regulations 2001 and other mandatory professional reporting requirements; and
- b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the *Corporations Act 2001*.

On behalf of the Directors



J S Murray
Chairman



D O Paterson
Chief Executive Officer

Sydney

15 March 2022

Conclusion

We have reviewed the accompanying half-year financial report of Latrobe Magnesium Limited and its controlled entities, which comprises the consolidated Statement of Financial Position as at 31 December 2021, the consolidated Statement of Profit or Loss and Other Comprehensive Income, consolidated Statement of Changes in Equity and consolidated Statement of Cash Flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the Directors' Declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Latrobe Magnesium Limited and its controlled entities does not comply with the *Corporations Act 2001* including:

- i) giving a true and fair view of the Latrobe Magnesium Limited consolidated financial position as at 31 December 2021 and of its consolidated performance for the half-year ended on that date; and
- iii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the Auditor's Responsibilities for the Review of the Financial Report section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001* which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's review report.

Responsibility of the Directors for the Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility for the Review of the Financial Report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Company's consolidated financial position as at 31 December 2021 and its consolidated performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Nexia

Nexia Sydney Audit Pty Ltd



Stephen Fisher
Director

Sydney
Dated: 15 March 2022

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